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ABSTRACT

Written during the summer and fall immediately following the passage of Proposition 13 (the California tax limitation amendment), this paper examines circumstances leading to its overwhelming support at the polls and the immediate efforts of state and local units of government to cope with the changes. The following are discussed: the political and economic climate that engendered the movement; the politics of the campaign; the vote itself; the immediate implications for various units of government, particularly elementary and secondary educational institutions; the state's bail-out legislation; the immediate and unsuccessful legal challenges; similar activities in other states; and the prospects for further tax and expenditure limitations movements in other states. Appendices at the end reproduce the text of Proposition 13 and show how a district can calculate its revenue for the school year. (Author/LD)

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PROPOSITION 13: THE CAMPAIGN, THE VOTE, AND THE IMMEDIATE AFTEREFFECTS FOR CALIFORNIA SCHOOLS

James Catterall and Thomas Thresher*

March 1979

*The authors are, respectively, Graduate Student in Administration and Policy Analysis, and Graduate Student in Economics and Politics of Education, School of Education, Stanford University.

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PROPOSITION 13: THE CAMPAIGN, THE VOTE, AND THE IMMEDIATE AFTEREFFECTS FOR CALIFORNIA SCHOOLS

Abstract

Written during the summer and fall immediately following the passage of Proposition 13 or the California tax limitation amendment, this paper examines circumstances leading to its overwhelming support at the polls and the immediate efforts of state and local units of government to cope with the changes. The following are discussed: the political and economic climate which engendered the movement; the politics of the campaign; the vote itself; the immediate implications for various units of government and particularly elementary and secondary educational institutions; the state's bail out legislation; the immediate and unsuccessful legal challenges; similar activities in other states; and the prospects for further tax and expenditure limitations movements in other states.

On June 6, 1978, California voters entered the polls to decide on a constitutional amendment that would change the shape of government, public services and education in the state and set a precedent for nationwide action. Proposition 13, or the Jarvis-Gann amendment, sought to limit property taxes to 1% of cash value, to roll tax assessments back to 1975 levels, to limit assessment growth to 2% annually and to require a 2/3 majority of qualified voters to change taxes. It was passed by a two to one margin, and immediately California social service agencies were faced with the prospect of a 60 percent cut in their revenues. What kind of situation gave rise to such an initiative? Who supported it? What were the responses to its passage? In this paper we will look briefly at the context in which the Jarvis-Gann initiative arose, the campaigns, their messages, and the actual vote. Following this, we will dedicate the bulk of the paper to the responses to Proposition 13, particularly Senate Bill 154 and its answer to educational needs. Finally, we will look briefly at some legal challenges to Jarvis-Gann and the "exportability" of Proposition 13 to other states.

BACKGROUND AND CONTEXT

The Climate for Proposition 13: Taxes, Government, and Howard Jarvis

To understand Proposition 13 it is essential to review the political and economic climate in which such a tax reform initiative flourished. California is the most populous state in the Nation. Although the rush to California has slowed over the last decade, it remains a popular destination for migrants from other parts of the U.S., particularly its urban areas. The desirability of California and the land speculation accompanying the rapidly rising prices of

the seventies has created some of the fastest growing residential property values in the nation. Combined with this is an efficient, and generally equitable property assessment system that requires reas essment every three years or at the time of sale. The property tax, a 6 percent sales tax, and a highly progressive state income tax all contribute to give California the third highest state and local per capita tax burden in the country.

In recent years government expenditures in California have grown 17 percent annually and government employment has increased by 10 percent per year. In the summer of 1977 the legislature sought to enact property or income tax relief, but failed under a deluge of alternative bills. The legislature passed a tax relief measure (Proposition 8 or the Behr bill) only after the Jarvis-Gann initiative had qualified for the ballot. Under Proposition 8, property taxes would have been reduced by half the amount proposed by Jarvis-Gann and the lost revenue was to have been replaced by a 5 percent transfer tax on the sale of real property. Finally, the state had a $5 billion budget surplus and there was a popular conception that it might be even larger.

A third element of the California context was the personality of advocate Howard Jarvis, a man transformed by the press from a right wing oddity into a folk hero of the "people's crusade." Jarvis, a 75-year old politican and the Executive Director of the Apartment Association of Los Angeles, had campaigned for tax relief for 15 years. Highlights from an interview on NBC's Meet the Press (June 18, 1978) give some flavor of the issues that aroused California voters and the Jarvis style that was so appealing. Jarvis' goal was to help homeowners, "the most important people" in this country. The Constitution, Jarvis asserted, guarantees citizens the right to life, liberty and property;

not "life, liberty and welfare or life, liberty and food stamps." Essential government services, like police, fire, and sewage treatment would not be cut, Jarvis assured, "because we're not going to permit it. There's ample money in California." Finally, Jarvis attacked education by arguing that summer school was a wasted service: "If they have a babysitting thing for nine months, I don't think they need it for three months more" (Los Angeles Times, 6/19/78).

Proposition 13 vs. Proposition 8

In this environment, two tax relief measures were brought before the voters. Proposition 13 was initiated by the process of popular referendum and petition. Proposition 8 represented the legislative effort to erode support for 13. According to California law, if both had passed, the referendum initiative by the people would automatically have taken precedence over that initiated by the government. The provisions of Proposition 13 are as follows:

- Property taxes are to be limited to one percent of the property's full cash value.
- Yearly increases in the tax assessment must be limited to two percent or less as long as the property does not change ownership.
- Property is to be taxed on the basis of the sale price when ownership is transferred.
- The property assessment base is to be rolled back to the 1975 level.
- Local property tax revenues are to be reduced by approximately $7 billion and property taxes cut back by 57%.
- A "two-thirds vote of qualified electors" is required to impose any special taxes at the local level.
- A two-thirds vote of the state legislature is required to increase or change state taxes (effective immediately upon passage of the proposition).
- The initiative guarantees that any part of the proposition found to be unconstitutional will not void the remaining parts.

(See Appendix A for the complete text.)

It was predicted that the winners under this initiative would be those whose property taxes comprised an abnormally high percentage of their total tax burden, e.g.: real estate speculators and apartment owners. The losers would most likely be renters who would receive no direct benefits (unless their rents were lowered), but who could face higher income taxes (Los Angeles Times 3/13/78). Advocates of Proposition 13 argued that in the long run rents would drop as the housing supply increased in response to the higher profits engendered by Jarvis-Gann windfalls to landlords.

If Proposition 8 had passed it would have done the following:

- split the tax roll and allowed residential property to be taxed at a lower rate than other property.
- reduce residential property taxes by about one-third
- increase the renters rebate to $75
- increase the senior citizen rebate
- limit future state and local expenditure increases to changes in the GNP deflator index (similar to the Consumer Price Index).
- replace lost local revenues with state revenues.

Table I summarizes the provisions of Proposition 13 and 8 (adapted from the Los Angeles Times, March 13, 1978).

The Campaigns

Well before the June 6 election the campaigns for and against Proposition 13 got under way. Neither campaign lacked money; in fact both raised more than $1 million. However, the "No on 13" campaign received most of its funding when the strength of the "Yes on 13" forces and the need for concerted opposition became more apparent as the election approached. The "Yes on 13" campaign had one objective, to pass the Jarvis-Gann initiative. "No on 13" sought two ends, the defeat of Jarvis-Gann and the passage of Proposition 8.

COMPARISON OF PROPOSITIONS 13 and 8

	Proposition 13	Proposition 8
Property tax relief	Taxes cut to 1% of appraised cash value. Reduces statewide property taxes an average of 57%. On a $60,000 home the immediate tax cut would be $765.	Taxes on all owner-occupied homes cut by 30%. Initial tax reduction of 31.7% increasing up to 34.8% in three or four years. On a $60,000 home the immediate tax cut would be $451.
Commercial property tax relief	Taxes cut to 1% of cash value. This applies also to business inventories and state assessed properties such as utilities.	Nothing directly.
Renters	Nothing directly.	Renters credit increased from $37 to $75 per year, including welfare recipients.
Senior citizen homeowners	Nothing directly.	The state would increase the amount it pays of the property taxes of home owners over age 65.
Tax Assessments	Tax assessments rolled back to reflect market values in fiscal 1975-76. Assessments could then rise no faster than 2% per year as long as held by same owner. Property sold or constructed after March 1, 1975 would be reassessed to reflect its market value at the time of transaction.	Owner-occupied residential property could, for the first time, be taxed at a lower rate than commercial property.
Other tax limits	Requires a 2/3 vote of the legislature to raise state taxes. 2/3 of qualified voters must approve any property related or special taxes.	Increases in local property taxes limited to rate of inflation. State revenues could increase up to 20% faster than personal income, but no more; any excess would be earmarked for tax relief.
Impact on other taxes	Local property tax revenues cut $7 billion per year; to maintain services other taxes will eventually have to be raised.	No impact for four or five years.

Proposition 13 received backing from apartment owners, real estate interests, right wing anti-tax groups, and many private citizens who contributed $25 or less. In addition, Proposition 13 was endorsed by former Los Angeles Police Chief Ed Davis and Attorney General Evelle Younger, both Republican gubernatorial candidates, and former governor Ronald Reagan. Finally, "Yes on 13" paraded endorsements from such "leading" economists as libertarian Milton Friedman.

The "Yes on 13" campaign was tremendously effective: the initiative qualified for the ballot with a record breaking 1.2 million signatures. The grass roots effort of the "Yes" campaign was highly decentralized despite media and mail campaigns run by professional public relations firms; numerous interest groups and organizations prepared and distributed materials without financial support or clearance from the official campaign organization. TV and radio commercials were varied, some were emotional, some were based on reason. Finally, the campaign capitalized on the state and national media exposure of Howard Jarvis (during the last three weeks of the campaign he was on talk shows daily).

The dominant messages of the "yes on 13" campaign were:

- send the politicians a message (that government is too big and wasteful)
- limit government spending
- cut property taxes by two-thirds
- property taxes can be cut without reducing services; the cut will just trim away the fat (prophesies of drastically reduced services were deemed "political scare tactics").

Once it became clear that the Jarvis-Gann proposal would be on the ballot, the "No on 13" forces began to gather. Under the leadership of Assembly Speaker Leo McCarthy and a California Teacher Association official, Cal Rossi, a coalition was formed that eventually represented a broad cross-section of California notables

and organizations. Labor representatives included the AFL-CIO and the American Federation of State and Municipal Employees. From the business world the Bank of America, Southern Consolidated Edison, Southern Pacific and the California Roundtable (a business consortium) came out in opposition to 13. Their assertion was that in the long run Proposition 13 would lead to higher corporate taxes, and that the cutbacks could initiate a prolonged recession. The educational interests included the Educational Congress of California, the California Teachers Association, the California Federation of Teachers, the PTA, and numerous School Board members. Governor Brown, Leo McCarthy, Los Angeles Mayor Tom Bradley and State Superintendent of Instruction Wilson Riles headed the list of politicians opposed to 13. Finally, a number of government reform groups added their support. These included Common Cause, the League of Women Voters, the Sierra Club, and the California Tax Reform Association. While the backing was extensive, some leaders were rather unsure of member loyality to "No on 13."

The initial strategy of the "No on 13" campaign was simply to defeat Proposition 13; however, in late April it was agreed to support Proposition 8 as an alternative. The campaign was conducted primarily through the media with little grassroots organization. "No on 13" sought to counter the emotional appeals of "Yes on 13" with a rational, informed campaign relying on community dignitaries. It expressly avoided the use of scare tactics. It did not play up Jarvis' background, the business windfalls that would result from Proposition 13, or the disruption of education. The dominant messages of the "No on 13" campaign were:

- Proposition 13 costs too much (services would be drastically cut)
- renters do not benefit from 13
- an alternative to Proposition 13 exists in Proposition 8.

About two-thirds of the way through the campaign it looked as if "No on 13" was gaining ground and that it would challenge Proposition 13 effectively. But in the last few weeks before the June 6th vote a number of unanticipated events tipped the scales in favor of Proposition 13.

Perhaps the most important event was the release, by Los Angeles County Assessor Alexander Pope, of the 1978 property tax bills reflecting the astronomical rise in Los Angeles County residential property values. Previously the tax bills had not been available until July. Newspapers were flooded with reports of property tax increases of 300 percent in just three years. At approximately the same time, other counties offered taxpayers access to their anticipated assessments. At the request of the Los Angeles County Supervisors, and with Governor Brown's endorsement, Pope announced a tax roll-back to the 1975 level. The public nonetheless perceived it all as a political shell game.
In addition, in late May the Governor had to admit that the state surplus was higher than stated previously. Instead of the $3.6 billion "certified" in March, the surplus turned out in fact to be $5 billion. This created considerable skepticism and engendered the belief that the surplus was actually higher yet. To further complicate the issue, during the last three weeks of the campaign, the national press and television picked up and popularized the "California Tax Revolt." Finally, two weeks before the election, Brown softened his opposition to Proposition 13 by announcing that he "could live with it."

THE VOTE

When June 6th arrived there was little doubt that Proposition 13 would pass. Voter turnout was a record breaking 67 percent. Many voters came out just to vote on Jarvis-Gann: 6.7 million voted on Propostion 13 and 6.1 million voted on Proposition 8, while only 5.7 million voted for a gubernatorial candidate in

the accompanying primary. Proposition 13 maintained a two to one margin over Proposition 8 throughout the vote tabulation. Only three counties. San Francisco and two other northern counties, defeated Jarvis-Gann. Proposition 8 was defeated 53 to 47 percent.

A CBS/Los Angeles Times poll revealed that more than 70 percent of the people interviewed after voting believed that services would not be cut. The breakdown of how groups voted is summarized in the following table (CBS/Los Angeles Times Poll 6/7/78).

It is worth noting in Table II that: 1) Propostion 13 received strong support from public employees; 2) a majority of Democrats supported Jarvis-Gann; 3) nearly 50 percent of renters, who received no direct benefit from 13, supported the proposition; 4) all income groups supported Proposition 13; and 5) persons of each educational level supported 13.

RESPONSES TO PROPOSITION 13: SENATE BILL 154

Soon after the passage of Proposition 13 the state legislature set to work to diminish the blow dealt to school and local governments. With July 1 set as the implementation date for the initiative, precipitous action was essential. Besides wanting to avoid a reduction of public services, the legislature also sought to offset any election year criticism by acting promptly. A joint legislative conference committee (JLCC) quickly convened to deal with the complex issues arising from the Jarvis-Gann initiative. The committee consisted of Senator Albert Rodda, who served as committee chairman; Leo McCarthy, Speaker of the Assembly; Senate President Pro-Tem James Mills; Paul Priolo, Assembly minority leader; Dan Boatwright, Chairman of the powerful Assembly Ways and Means Committee; and Senator William Campbell who served as spokesman for Republicans in the upper house.

TABLE II

VOTING BREAKDOWN ON PROPOSITIONS 13 and 8

	Percentage voting for 13	8
PARTY (primary voters)		
Republicans	78	36
Democrats	57	52
IDOLOGY		
Liberal	45	63
Moderate	65	47
Conservative	82	28
PROPERTY		
Owners	72	39
Renters	47	62
EDUCATION		
Less than High School	72	35
High School Graduate	76	34
Some College	66	47
College Graduate	54	55
INCOME		
Under $8,000/yr	55	56
$8,000-$15,000/yr	67	43
$15,000-$25,000/yr	68	41
Over $25,000/yr	63	49
PUBLIC EMPLOYEES		
In Household	43	64
Not in Household	74	38
ETHNICITY		
Blacks	42	71
Whites	67	43

With uncharacteristic legislative ease the major dimensions of the bail out (SB 154) were carved in a period of only 15 days. In this time, the interests representing kindergarten through 12th grade education secured 1) a fair-share guarantee of support for 1978-79, 2) an apparent high degree of continued progress toward conformity with Serrano school finance mandates and 3) some flexibility in use of funds for 1978-79. The subject of this section is an investigation of the politics of the bail-out process. This process, swift and sure by any standards, was nonetheless influenced by several factors including the political climate, the preparations and postures of key actors, and certain perceived legal constraints, and each of these factors was conditioned by a compelling need for quick action. These factors in the process are discussed in the following sections.

Schools in the Context of the Overall Bail-Out

The State Department of Education (SDE) estimated that schools would have received about 52 percent of the property tax revenues eliminated by the constitutional amendment. It is also evident that schools will receive about 52 percent of the bail out funds. In this sense, education got its share. This overall support to schools for next year involves about a 10% budget cut over 1977-78.

In terms of what elementary and secondary (K-12) education will be allocated for the 1978-79 school year, however, the outlook is somewhat different. The transfer of additional funds (due to the cancellation of adult education, summer school, and salary increases, and the state's strong incentives for expediture of district surpluses) into the regular K-12 school year accounts can and will make certain districts well-off for 1978-79. Some districts will expand

their regular year programs. But this good fortune comes only with the loss of summer school and adult education programs and at the expense of educational personnel.

Political Climate

The JLCC very quickly approved most of State Superintendent Riles' proposed package for schools, including the total proposed figure; in fact, most of the political fighting took place with the school bail-out already assured. Key features of the political climate at the time of the bail out include:

- A widely perceived mandate from the electorate for economies in government.
- A potentially chaotic state of affairs for a governor and legislature facing re-election in the fall (all of the Assembly and half of the Senate).
- Steadily growing estimates of the magnitude of the state's surplus which could be devoted to alleviating the massive revenue losses.
- The July 1 cut-off for pre-Propostion 13 levels of property tax collection.

The climate virtually foretold that the governor and legislature would act to minimize the disruption of on-going governmental services while, at the same time, conforming to the perceived mandates. The 10 percent overall reduction (as determined by the gross magnitude of the state bail-out), and the emphasis on holding back salary increases rather than cutting employment were reflective of this climate.

There were clearly two key actors in the bail out process for schools, Governor Brown and State Superintendent Riles. The bail-out conformed closely with the overall parameters set by the Governor. His early suggestion of $4 billion in guarantees and $1 billion in loans described the ultimate outcome.

These dollar parameters were, in a sense, the prerogative of the Governor who, with direct links to the State Department of Finance, was in a better position than anyone to make an official pronouncement as to the size of the surplus. The Governor also adroitly synthesized his perennial "era of limits" theme with the new Proposition 13 demands for economy in government.

The Governor set a stage in which the actual cuts for fiscal 1978-79 would be about 10 percent. The need for quick action engendered a requirement for simplicity and uniformity in the distribution of cutbacks among the affected units of government. Quite simply, an all out war could not be fought in just 30 days.

An understanding of the likely size of overall cuts and the need for prompt action seemed to have led to a very timely, well thought-out, and complete response by Superintendent Riles to the needs of education in the bail out. Conversations with SDE staff after the fact indicate that the efforts underlying Riles' response were conducted with an overwhelming perception of a need to be "reasonable." That is, that education could not demand an inordinate share of the legislature's largesse in this environment. Certain objectives were clear in the Riles' proposals to the JLCC:

- A desire to minimize layoffs in education. This stemmed from the legal traps involved, a desire to minimize the personal impact on education employees, and the adverse economic impact of unemployment.
- A desire to retain conformity with AB 65 which arose from the Serrano decision, and which included categorical programs such as the School Improvement Program.
- A desire to gain as healthy a share of the bail out for education as possible (or politically feasible).

Riles' formal proposal to the JLCC skillfully blended the political climate, the Governor's intentions, and his own objectives. His proposals

were also based upon a sophisticated understanding of the interplay between the bail-out and the changes in school finance patterns which were in progress under AB 65.

- He proposed that schools absorb their share of the cut: 10 percent overall.
- He desired to preserve categoricals without "cannibalism."
- He proposed that fiscal 1978-79 be used as the base for calculations to maintain the progress of AB 65 and to reflect the levelling up and declining enrollment features in particular.
- He argued that schools had been under the restraint of per pupil revenue limits since SB 90 and that other units of government had no such constraints.
- He had at an early date suggested closing down summer programs which contributed to sentiments that schools were already feeling a pinch.

Observers noted that Riles did a remarkable job of selling a one year status quo with the promise of more in-depth analysis and change for the following year. This tied in with the needs of a harried committee. These needs were not served well by representatives of the California Teachers Association and the California School Board Association who argued for full replacement of lost revenues ($2.6 billion vs. $2.1 billion). This plea clearly did not fit the requirements of the political situation.

The only substantial difference between the Riles' proposal and the committee's recommendation was a change in Riles' proposed sliding scale* (6 to 12 percent cuts depending on spending level of a district) to the one adopted (9 to 15 percent). This seemed to stem from State Assemblyman Priolo's firm stand that everyone absorb at least some cut. The 6 percent figure appeared to allow some program expansion in low spending districts which had planned increases for

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*See p. 16 for an explanation.

1978-79 in excess of 6 percent.

Legal Constraints

Two legal parameters figured prominently in the shaping of the bail-out for schools: AB 65 mandates deriving from the Serrano decision, and the entanglements involving school layoffs. School revenue limits for 1978-79 under AB 65, California's year old school finance reform law, were intended to reflect a year's progress (over 1977-78) toward meeting the requirements of the Serrano mandate. The 1978-79 revenue limits continued the leveling-up process by allowing low spending districts to expand budgets faster than high spending districts. The JLCC was reluctant to interrupt such a major policy response with regard to California school financing, especially one that had been achieved at great length and over several years through the legal and legislative processes. In seeking an interim response, it made good sense to use the 1978-79 figures (which incidentally included increases over 1977-78) as a base for determining school allocations. This would approximate some continuity of this major policy.

Forcing massive school layoffs was considered to be inappropriate by all concerned in the bail-out process. The existing statutes specify deadlines for notification (which had passed), specific reasons which allow cutbacks of certificated personnel (declining enrollment and elimination of services) and constitutionally required due process hearings. A bail-out which precipitated employment cutbacks would involve legal entanglements that the emergency and interim-minded legislature was unwilling to wrestle with.

SB 2212, a law which modified and filled in gaps found in SB 154, removed some of the flexibility inherent in the bail-out by requiring school districts to

maintain child care and parent co-op pre-schools at least 90 percent of 1977-78 levels. This reflects some success of child care interests to protect their share in school budgets. The State also encouraged district spending of reserves, by the provision that it would confiscate one-third of reserves in excess of 5 percent of the general funds of districts at the end of 1977-78. The prospect that this policy will continue will create an incentive for districts to expend reserves down to this level during the school year 1978-79 also. Moreover the Governor specified no pay raises in the final appropriations package; this provision had precedence over existing collective bargaining contracts of school districts and increased funds for other purposes that had been previously allocated to raises.

Table III below summarizes how the aid was allocated as a result of the bail-out legislation.

TABLE III

SB 154 Conference Committee Staff 6/21/78

ALLOCATION OF AN ADDITIONAL $2.2 BILLION FOR PUBLIC SCHOOLS, COUNTY OFFICES OF EDUCATION AND COMMUNITY COLLEGES

Level	Additional State Aid	Approximate Percent Guarantee of 1978-79
K-12	$2.067 billion	90%
County Offices of Education	$ 65 million	90%
Adjustments		
Less 33 1/3% of reserves in excess of 5% of 77-78 State and local revenues (13 million county)	- 66 million	
Less 10% pro rata reduction categoricals: 1978-79 base	- 53 million	
Driver Training Fund Reversion	- 6 million	
	$2.007 billion	

TABLE III (cont'd)

Community Colleges	300 million	85%
Less 33 1/3% of reserves in excess of 5% of 77-78 State and local revenues	- 40 million	
Subtotal	260 million	
TOTAL	$2.267 billion	

It should be noted that categorical aids which fund specific programs such as transportation and education of the handicapped were reduced by not more than 10 percent. In addition, state aid was provided to grades K - 12 on a sliding scale that guarantees up to 91 percent of anticipated funding to low wealth districts and not less than 85 percent of funding for high wealth districts.

Specific Provisions for Elementary and Secondary Schools

The committee proposals as they were translated in SB 154 took the form of a rather complicated formula for grades K - 12. The formula which we present as Appendix B is the one a district would use to determine its state guaranteed amount less the revenues obtained from post-Proposition 13 property tax revenues and other unaffected sources.

Provisions for Community Colleges

Community colleges are also receiving aid from the state. All districts were cut by 15 percent and each district was alloted the same proportion of the total community college revenue it received before Proposition 13. This state aid amounted to $260 million and was allocated to the districts according to the following formula:

State aid = p(TB - A - PT - R)

P = the proportion of the total community college funding that a district received prior to Proposition 13.

TB = "target budget" = 1.068 times the revenue received for the 1977-78 fiscal year.

A = the apportionment resulting from the transfer of $527,064,900 from the General Fund of the State Treasury to the State School Fund for Community Colleges.

R = .33 times the general fund balance in excess of 5 percent of the district's total income for 1977-78 or $50,000, whichever is greater.

Normally a community college district's expected revenue (or target budget) consists (very simply) of the apportionment it receives from the State Treasury and part of the local property tax revenues. In providing aid, the state allowed each district to increase its target budget by 6.8 percent, but at the same time it required the district to use part of its revenue.

County Offices of Education

County offices of education were allotted state aid to bring them up to about 90 percent of their expected revenue for 1978-79. The formula for computing the aid provided to the county offices was as follows:

State aid = .9(RL + T) - (PT + C + F + P + R)

RL = the offices' revenue limit for the 1978-79 fiscal year.

T = tax revenues for fiscal 1977-78.

PT = property tax revenues received in 1978-79.

C = state and federal categorical aid.

P = any other payments or contributions.

R = .33 times any general fund reserves in excess of 5 percent of the office's total income for fiscal 1977-78 or $55,000, whichever is greater.

County Governments

The central controversy surrounding the allocation of the state bail-out funds to the counties dealt with cost-of-living increases for welfare recipients. Senator Campbell took the stance that, if state employees must forego cost-of-living increases, "then AFDC recipients ought to forego a cost-of-living increase as well." Assemblyman Priolo supported this position, and the influence carried by Campbell and Priolo with the Republicans forced a compromise on the committee. The compromise was to tie cost-of-living raises to the wages of state employees. This, however, did not resolve the issue; it only passed it on to a budget conference committee. Brown's request for a freeze on state wages resolved the issue.

Senate Bill 154 allocated $1.6 billion of the state budget surplus to aid the counties. The major portion of this aid ($1.068 billion) goes for a "buy-out" of county welfare services. The programs taken over by the state include Aid to Families with Dependent Children (AFEC), Supplemental Security Income/State Supplemental Payments (SSI/SSP), Medi-Cal and the Food Stamp administration. Under this buy-out, all cost-of-living increases in welfare are tied to increases in the pay of state and local government employees. With Brown's freeze on government wages the state will save about $23.9 million in AFDC cost-of-living increases alone.

Another major aspect of the aid to counties is $412 million in "no strings" block grants. This will be allocated to counties according to their net property tax losses resulting from Proposition 13. The approximate $4.4 billion in anticipated property taxes for fiscal 1978-79 will be distributed to counties in proportions commensurate with the average revenues collected by each county between fiscal 1975-76 and fiscal 1977-78.

Cities and Special Districts

When considering the bail out for cities, the JLCC originally felt that the municipalities should receive less than the other jurisdictions eligible for aid. Their rationale was that cities had more opportunities to obtain non-property tax revenues. The League of California Cities (LCC) protested. They quickly pointed out that since Jarvis-Gann had instituted the requirement of a two-thirds majority vote to raise taxes, the non-property tax options available to cities had been curtailed severely. Second, the JLCC estimated that the cities needed $402 million in state aid to keep property tax losses down to 30 percent. (The original proposal was to give cities $125 million.) Finally, the League argued that "it is inappropriate to require a local tax increase for cities when no other local government is being forced to increase taxes in this post-Jarvis environment."

Another issue that was relevant to both cities and special districts was the wording with respect to police and fire protection. The GOP members, Campbell and Priolo, initially wanted "100 percent funding for police and fire." They held that supervisors would reduce these essential services in favor of other programs. "We believe some officials seem to be determined to punish the public for voting for Proposition 13," they explained. Others disagreed with this contention arguing that "100 percent funding" would prevent cutting the fat from existing programs. The issue was resolved when the committee decided that a requirement for full "service levels" would be as acceptable as "100 percent funding."

A final issue dealt with the dispersion of state bail-out funds to special districts. McCarthy argued that funds should be dispersed by county supervisors (rather than directly by the state) to help maintain "local control." Mills

thought this might displease special districts and was backed by Fraser's in his expressed doubt that "any special district could set its budget on time" if it had to wait for supervisorial action. Nonetheless, authority for dispersal of special district bail-out funds was given to the county supervisors.

SB 154 gave California cities $250 million of the budget surplus pie. It was required that part of this be used to maintain police and fire services "at 1977-78 levels." This, however, does not prevent city councils from instituting changes that would make "protection more efficient."

The bail-out also allocated $125 million to special districts. The first priority of funding is to maintain fire service at the 1977-78 level and has been made a condition for receiving further state aid. Second priority goes to districts having no reserves that have not already been obligated. Third, funds will be allocated to those districts that rely most heavily on property taxes and have no other sources of revenue.

Loan Fund

Finally, the Jarvis-Gann bail-out set aside $900 million to be used for short-term loans to agencies facing "imminent default." These loans will have to be repaid by June 30, 1979.

The committee's proposals as adopted in SB 154 are summarized in Table IV on the following page.

LEGAL CHALLENGES TO PROPOSITION 13

As expected when fundamental changes are instituted in a society, important legal challenges must be answered. Five major suits were filed with the California Supreme Court shortly after the passage of Proposition 13. Most have since been heard and rejected, thereby leaving the Jarvis-Gann initiative intact.

TABLE IV

As adopted on June 22, the conference committee's proposal looks like this:

COUNTIES would receive $412 million in block grants and another $1.068 million in a partial, one-year "buy-out" of health and welfare costs. The state will pick up the entire cost for AFDC, SSI/SSP, food stamps administration and Medi-Cal, but the counties will continue to administer the plans.

The counties also attained a one-year waiver of the so-called Beilenson Act which requires a public hearing and findings before health services are reduced. However, the counties would still be prohibited from reducing public health care in an amount disproportionate to their loss from Jarvis-Gann.

SPECIAL DISTRICTS would receive $125 million in state surplus funds through county boards of supervisors. Supervisors could allocate the funds at their discretion, but they are required to provide sufficient funds for fire services so that levels of protection do not fall below those of 1977-78.

Multi-county districts would receive their surplus allocation directly from the state.

CITIES would be granted a total $250 million allocation, to be divided according to the loss in each city's property tax revenues.

POLICE AND FIRE protection services would have to be continued at 1977-78 levels, but that provision does not preclude city councils from acting to "make such protection more efficient."

SCHOOLS would get $2.007 billion in additional state aid for a "total guarantee" of 85 percent funding for high-wealth districts and 91 percent for low-wealth schools.

COUNTY OFFICES OF EDUCATION would get $65 million and a guarantee of 90 percent of funds they would have received in the 1978-79 year. Community colleges are designated for $300 million and an 85 percent funding guarantee.

In K-12 schools, categorical programs would each be cut by approximately 10 percent--the same as average statewide reductions in the basic education program.

RESERVES could not be totally retained by a local government if they exceed 5 percent of its budget or $50,000, whichever is greater. Any reserves above that amount would have to allocated one-third toward meeting the agency's guaranteed funding level. The remaining two-thirds could be spent or retained at the agency's discretion.

This provision was designed especially for school districts, but the committee agreed to extend it to cities, counties and special districts.

REMAINING PROPERTY TAX would be allocated to all entities based on Senator Arlen Gregorio's SB 2212. The measure outlines the following formula:

> County auditors would figure the total average property tax levied by all agencies in the county over the last three years. They then would determine what percentage of the three-year average was paid by each local entity. Cities, counties and special districts would all receive a part of the remaining 1978-79 property tax revenues based on that percentage.
>
> The same formula would be followed for schools, community colleges and county boards of education, except that their allocation would be determined on the basis of last year's property tax levies rather than a three-year average.
>
> LOAN FUND would provide $9000,000,000 in short-term loans for agencies facing "imminent default." The loans would have to be repaid by June 30, 1979.

Source: "Proposition 13 Impact Reporter." 1st issue. Prepared by California Research.

The plaintiffs* in these cases proffered the arguments that Proposition 13: 1) violated equal protection clauses of the state constitution; 2) made such sweeping changes that it constituted a major revision of the state consitution, not just an amendment; 3) was too vague to be understood; 4) had used a misleading summary; and 5) would "wreck" the quality of life.

The essence of the equal protection claim was that side-by-side properties would be taxed differently under Propostion 13 and that taxes should apply equally to all persons "similarly situated." In addition, it was argued that the Jarvis-Gann initiative shifts the tax burden from commercial to residential property because homeowners tend to move more often.

The revision suit against Proposition 13 argued that so many constitutional provisions were altered by Jarvis-Gann that it threatened the fundamental constitutional nature of our present government." Related to this was the claim that Proposition 13 was invalid because it dealt with more than one subject.

The void-for-vagueness claim argued that important terms were so vague that voters could not know the meaning of the proposition. The misleading summary argument stated that two counties had circulated ballot pamphlets bearing summaries judged misleading by the California Superior Court.

Finally, it was argued that Proposition 13 would threaten education as a "fundamental interest" and prevent school districts from fulfilling their "mandatory legal duties." Furthermore, the financial loss from Jarvis-Gann would cause districts to violate a number of state laws and abolish "home rule for all local agencies" by "removing any local control over property taxes."

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*The plaintiffs in these suits were 1) the California Federation of Teachers and the State Council of Service Employees International Union (AFL-CIO); 2) the California Teachers Association; 3) the Amador Valley Joint Union High School district, the Los Angeles Unified School district, 24 other school employers, the California Community and Junior College Association and the California School Boards Association; 4) Alameda County, seven other counties and taxpayer Douglas Hickling; and 5) taxpayers Bob Horn and Edna Bess of Sacramento.

PANIC AND PREDICTIONS

The most immediate response to the passage of Proposition 13 was the cancellation of summer school. Yet some districts were forced to renege on this cutback. Under pressure from parents and teachers, Pasadena school official reopened summer school at a cost of $400,000 (Los Angeles Times 6/10/78).

During the first week after the June 6th passage of Proposition 13 the newspapers were flooded with suggestions for immediate alterations. It was suggested that tuition might have to be instituted at two-year colleges and raised significantly at state colleges (San Francisco Chronicle, 6/8/78). The possibility of abolishing kindergarten and adult education were also suggested (Wilson Riles in the San Jose News, 6/8/78). William Johnston, Superintendent of the Los Angeles City School District, among others, threatened very drastic cutbacks in the wave of Proposition 13: Los Angeles would have to lay off 18,400 teachers, and 19,000 classified employees, eliminate summer school, eliminate bus transportation, close 21 elementary schools and open regular schools late (Los Angeles Times, 6/8/78). Indeed these predictions would have been reasonable in the absence of the abil-out that was passed later.

Panic also characterized sectors other than education. Los Angeles County Fire Chief Clyde A. Bragdon, Jr., warned that 460 fire protection districts would lose an average of 66 percent in property tax support. This, in turn, could cause fire alarm response rates to triple and insurance rates to rise considerably (Los Angeles Times, 6/15/78). In the legal realm, Seth Hufsedler of the Judicial Council suggested that the state assume full financing of the court system. If it did not, Hufsedler warned, there was a real danger that justice could not be administered farily and equally (Los Angeles Times, 6/15/78).

These responses, some in panic, some retributional, and many realistic, helped give the post-Jarvis environment an air of dread. Since the nature of the bail-out was uncertain, the dire predictions were understandable means by which the various sectors could draw attention to their interests. But as many had predicted, the state quickly allocated the bulk of its budget surplus for the support of those agencies most dependent on the property tax. This, however, is a stop-gap measure and it remains to be seen what effects Jarvis-Gann will have over the next few years if budgeting surpluses for bail out are reduced or if the state reduces its assistance.

PROSPECTS IN OTHER STATES

Table V below indicates the Proposition 13 type tax activity occurring in the United States as of June, 1978. It is apparent that legislation or constitutional changes similar to the provisions of Proposition 13 hold the interests of people throughout the United States.

TABLE V

TAX AND EXPENDITURE LIMITATION ACTIVITY IN THE STATES - JUNE, 1978

ALABAMA	
ALASKA	- *NTLC has contacted groups
ARIZONA	- Proposed 7% limit on revenues of % of income. Referendum Nov. 1978
ARKANSAS	
CALIFORNIA	- Prop. 13 passed 6/13/78; NTLC spending lid proposal
COLORADO	- 7% limit on states spending-statutory; proposed const amend Nov. 197
CONNECTICUT	- NTLC has contacted groups
DELAWARE	
FLORIDA	- Const Rev. Comm. rejected TN Amend; prop. tax limit rejected by legislature, 1978
GEORGIA	- Legislature blocked TEL*
HAWAII	- Limit proposal may be considered at July Const. convention
IDAHO	- Petition drive for 1% limit of Fair Market Value limit on property taxes
ILLINOIS	- Legislatures blocked 7% on revenues as percentage of personal income
INDIANA	
IOWA	- TEL blocked by legislatures, 1978 session

TABLE V (cont'd)

KANSAS	
KENTUCKY	- Governor has engaged law firm to draft TEL const. amendment
LOUISIANA	
MAINE	- TEL blocked by legislature in 1977; refrendum proposal (TEL) underway
MARYLAND	- NTLC has contacted groups - definite activity
MASSACHUSETTS	- TEL needs const. convention approval in '78-79 - if ok'd to voters in '80
MICHIGAN	- TEL petition drive for Nov., 1978
MINNESOTA	- Legislature blocked TEL
MISSISSIPPI	
MISSOURI	- Organizing for action in 1979
MONTANA	- NTLC has contacted; significant legislator interest
NEBRASKA	- Proposed const. amend. to limit local spending
NEVADA	
NEW HAMPSHIRE	- Gov. want referendum to limit prop. tax and prohibit sales and income taxes
NEW JERSEY	- 1976 statutory limit relating spending to growth in personal income
NEW MEXICO	
NEW YORK	- NTLC has contacted - Assy. Durea has called for const. convention to generate TEL
NORTH CAROLINA	
NORTH DAKOTA	
OHIO	- Organizing for 1979 - to adopt TEL
OKLAHOMA	
OREGON	- Petition drive to limit property taxes to 1.6% of Fair Market Value
PENNSYLVANIA	
RHODE ISLAND	
SOUTH CAROLINA	
SOUTH DAKOTA	- Legislature blocked TEL
TENNESSEE	- Constitutional amendment tying state spending to growth in personal income
TEXAS	- NTLC contacted
UTAH	- Petition drive for TEL
VERMONT	
VIRGINIA	- NTLC reports activity
WASHINGTON	- NTLC reports activity
WEST VIRGINIA	
WISCONSIN	- Legislature blocked TEL
WYOMING	

* NTLC = National Tax Limitation Committee
TEL = Tax and Expenditure Limits

Source: Wilken, William. "Proposition 13 in Other States," unpublished manuscript, June 1978.

There are two apparent themes concerning the emergence of Jarvis-Gann type tax relief measures in other states. One viewpoint is that the California situation was unique, that the combination of large increases in property values, efficient assessment practices and a large budget surplus created a "tax revolt" situation that is unlikely to be replicated elsewhere. The other view is that the objective context is of little importance; rather the central issue is the voters' attitude about the targets of Proposition 13: rising property taxes and growing government bureaucracy.

We tend to agree with the latter view in a modified form. We believe Proposition 13 is not an attack on property taxes and growing government per se, but a reflection of an attitude that is growing in this country. It is apparent to most Americans that it is becoming more difficult for them to maintain their life style. The cheap and abundant natural resources (e.g., oil) and the inexpensive labor that has helped make the American standard of living the highest in the world are disappearing. The U.S. is increasingly faced with levels of scarcity it has not had to confront for decades. At the same time this country maintains a large middle class population accustomed to a lifestyle of increasing luxury and opportunity. As the privileges of this middle class have become more difficult to obtain and maintain, a retrenchment has occurred and there now appears to be a national desire to return to the simpler times and prosperity of, say, the 1920's or 1950's. This is most evident in television, films and music, but it is also apparent in new legislation. Jarvis-Gann seems not to be just a demand for lower taxes and smaller government but an effort to reinstate the post-war economic system that once generated tremendous growth and prosperity in the U.S.

Obviously, there are other factors that help explain the power of the Proposition 13 messages. The appeal to "send government a message" seems indicative of the sense of alienation people feel in this country, particularly alienation from their "own" government which at least presents the promise of participation. The desire to cut taxes appears to be a plea to maintain a threatened lifestyle by attacking the most obvious (though not necessarily most important) threat: government. Cutting taxes is likely both an attempt to retain a lifestyle by putting more money in middle class pockets and an affirmation that citizens have power in at least one realm of their public life. For these reasons, we expect that Jarvis-Gann type tax reforms will gain in popularity across the nation.

Table VI lists the results from November 1978 ballots on limitation initiatives. Eight states appear to be engaging in significant tax or expenditure limitations. Whether additional Proposition 13 type reforms will be successful in individual states in the longer run depends, despite a national mood, on some other factors. Of utmost importance in the decision of other states will be the effect of Proposition 13 on California services. Here the pro-tax reform forces will have a definite advantage during the next year. With the legislative bail-out in California it is likely to appear that this state was successful in trimming government without a loss in essential services. But how many states could cut property taxes by almost 60 percent and still maintain services at 90 percent capacity? California's stop-gap measures could prove deceptive to other states seeking similar tax reforms. This of course, points to one of the major factors discouraging the export of Jarvis-Gann type initiatives to other states; the lack of large budget surpluses to bail-out public services.

TABLE VI

RESULTS OF GOVERNMENT TAX AND SPENDING LIMITATION INITIATIVES

AS OF NOVEMBER 9, 1978

Alabama	- Assessment vote reduction approved
Arizona	- 7% limit on state spending approved
Arkansas	- Sales tax exemption for drugs and groceries defeated
Colorado	- Measure tying state expenditures to population and Consumer Price Index defeated
Hawaii	- Measure linking government spending to economic growth and a system of tax refunds approved
Idaho	- Initiative limiting property taxes approved
Illinois	- Advisory referendum regarding tax ceiling approved
Massachusetts	- Measure allowing different assessment rates for different properties approved
Michigan	- Spending limit approved; property tax cut and school voucher system defeated
Missouri	- Permission granted to legislature to lower property tax rates
Nebraska	- Spending limitation rejected
Nevada	- Property tax limit provisionally approved
North Dakota	- State income tax cut approved
Oregon	- Two tax cut measures (one similar to Prop. 13) defeated
South Dakota	- Two-thirds vote of legislature or public referendum required before taxes are increased
Texas	- Measure linking state spending to economic growth approved

Source: Adopted from San Francisco Chronicle - 9 November 1978

APPENDIX A

TEXT OF PROPOSITION 13

Section 1. (a) The maximum amount of any ad valorem tax on real property shall not exceed one percent (1%) of the full cash value of such property. The one percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2. (a) The full cash value means the County Assessors valuation of real property as shown on the 1975-76 tax bill under "full cash value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3. From and after the effective date of this article, any changes in state taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computation must be imposed by an Act passed by not less than two-thirds of all members elected to each of two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4. Cities, counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such city, county or special district.

Section 5. This article shall take effect for the tax year beginning on July 1 following the passage of this amendment, except Section 3 which shall become effective upon the passage of this article.

Section 6. If this section, part, clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect.

APPENDIX B

A district wanting to calculate its revenue for the 1978-79 school year would first estimate its revenue limit for 1978-79. This revenue limit is calculated as a function of average daily attendance (ADA) for 1978-79 excluding summer school and the average daily attendance for summer school 1977-78 (we will call this amount RL1). Second, the district would compute its revenue limit for 1978-79 as a function of average daily attendance adult attendance for 1978-79 (RL2). Finally, the amount received from property taxes in 1977-78 (PT) is added. Thus, a district's expected revenue is: RL1 + RL2 + PT.

Now the sliding scale adjustment factor must be computed for different types of school districts. The adjustment factor (AF) for each type of district is as follows:

- Elementary school districts: $AF = \frac{(RL1 + PT)/ADA}{\$1,241}$

- High School districts: $AF = \frac{(FL1 + PT)/ADA}{\$1,427}$

- Unified school districts: $AF = \frac{(RL1 + PT)/ADA}{\$1,322}$

ADA = the average daily attendance for summer school 1977-78 plus the total of the regular average daily attendance for the 1978-79 school year exclusive of summer school.

Once the adjustment factor is computed there are three decision rules:

- If the adjustment factor is less than or equal to 1.1 ($AF \leq 1.1$), subtract .09 times the revenue limit for 1978-79 exclusive of summer school (i.e., .09 x RL1) from the estimated revenue (RL1 + RL2 + PT).

- If the adjustment factor is greater than or equal to 1.5 ($AF \geq 1.5$), calculate 1.5 times RL1 and subtract this amount from the estimated revenue.

- If the adjustment factor is between 1.1 and 1.5 (1.1 AF 1.5), a percentage between 9 and 15 must be computed by the following formula:

$$0.06 \left(\frac{AF - 1.1}{0.4}\right) + 0.09,$$

this fraction is then multiplied time RL1 and subtracted from the estimated revenue for 1978-79.

In addition to the above reduction the committee wanted to induce school districts to use part of their reserves. Therefore the funding guaranteed by the state is further reduced by:

$$.33 \times R$$

(R - general fund and special reserves in excess of 5 percent of the districts total revenues for 1977-78),

or $50,000, whichever is greater.

The actual aid will be reduced by the expected revenues from property tax levies under Proposition 13 stipulations and provided up to a maximum of about 4.2 billion.

The following example should help clarify the above process:

Consider a high school district that has calculated its revenue limit for 1978-79 (RL1) to be $7,762,880, its revenue limit for adult education (RL2) is $2,587,627 and it received $15,525,760 in property taxes (PT) in 1977-78. This revenue was expected to hire enough resources to teach 10,000 students during the 1978-79 regular school year and 2,000 1977-78 summer school students (ADA = 12,000). Such a school district could compute the funds it could expect for instruction under post-Propostion 13 constraints in the following manner:

First, the district would compute its estimated revenue for 1978-79 as if Jarvis-Gann had not passed.

RL1 + RL2 + PT = $7,762,880 + $2,587,627 + $15,525,760 = $25,876,267

Second, it would compute the appropriate adjustment factor:

$$AF = \frac{(RL1 + PT)/ADA}{\$1,427} = \frac{(\$7,762,880 + \$15,525,760)/12,000}{\$1,427} = 1.36.$$

Since this is between 1.1 and 1.5 the district must compute its own discount percentage using the formula:

$$0.06\left(\frac{AF - 1.1}{0.4}\right) + .09 = .06\left(\frac{1.36 - 1.1}{0.4}\right) + .09 = .13$$

This discount factor is then multiplied by RL1 and subtracted from the estimated revenue for 1978-79:

(RL1 + RL2 + PT) - .13 (RL1) = $25,876,267 -$1,009,147 = $24,867,093

If we also assume that this high school district received $20 million in total revenue in 1977-78 and had reserves of $1.5 million it would have to compute an additional discount figure. First it would take 5 percent of its total revenues for 1977-78:

.05($20,000,000) = $1,000,000.

The district's reserves in excess of this amount are:

$1,500,000 - $1,000,000 = $500,000.

One third of this amount is .33($500,000) = $165,000 which must be deducted from the state guaranteed funding. Therefore the total funding this high school district could expect for 1978-79 is:

(RL1 + RL2 + PT) -.13(RL1) -.33(R) =

$25,876,267 -$1,009,147 -$165,000 = $24,702,093

The actual aid provided by the State will be this amount less the apportioned property taxes collected under Jarvis-Gann.